

REPORT OF

LIMITED SCOPE EXAMINATION

OF

PROTECTIVE LIFE AND ANNUITY INSURANCE

COMPANY

BIRMINGHAM, ALABAMA

AS OF

DECEMBER 31, 2006

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STATE OF ALABAMA

COUNTY OF JEFFERSON

I, Rhonda B. Ball, being first duly sworn, upon her oath deposes and says:

That she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That a compliance examination was made of the affairs and financial condition of Protective Life and Annuity Insurance Company for the period of January 1, 2004, through December 31, 2006;

That the following 20 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And that the statements, exhibits, and data therein contained are true and correct to the best of her knowledge and belief.

Rhonda B. Ball

Rhonda B. Ball

Subscribed and sworn to before the undersigned authority this 28th day of June 2007.

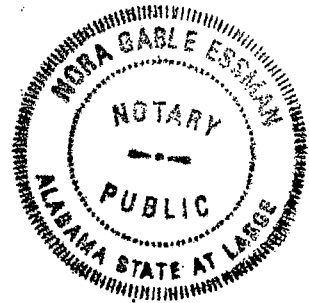
Nora G. Essman

(Signature of Notary Public)

Nora G. Essman, Notary Public
(Print Name)

in and for the State of Alabama.

My commission expires 1/13/2010





BOB RILEY
GOVERNOR

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PRODUCER LICENSING MANAGER
JIMMY W. GUNN

Birmingham, Alabama
June 28, 2007

Honorable Walter A. Bell
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Commissioner Bell:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a limited scope examination as of December 31, 2006 has been made of

Protective Life and Annuity Insurance Company

located at 2801 Highway 280 South; Birmingham, Alabama 35223. The report of examination is submitted herewith. Where the description "Company" or "PL&A" appears herein without qualification, it will be understood to indicate Protective Life and Annuity Insurance Company.

SCOPE OF EXAMINATION

The Company was last examined for the four-year period ended December 31, 2003, by examiners from Alabama, representing the Southeastern Zone, NAIC. The current limited scope examination was conducted by examiners from Alabama and was called in order to determine if the Company was in compliance with the prior examination recommendations (as of December 31, 2003). The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2006.

Sections included within this report are limited to areas where there were recommendations made within the prior examination report. Commentary is included based on the examiners' review of the Company's compliance with these recommendations. The financial statement amounts contained within this report were obtained from Company's copies of filed Annual Statements unless an exception was found when reviewing certain accounts where there was a recommendation in the prior examination report. This limited scope examination report does not express an opinion on the financial statements of the Company.

Management and Service Agreements

The prior examination noted that the Company did not require its affiliates to comply with a standard provision contained in its Administrative Service Agreements with affiliates. The service agreements contain a paragraph titled "Payment of Charges". The payment of charges provision contains a requirement that the affiliate "...submit to the Company within 15 days of the end of each calendar quarter a written statement of the amount estimated to be owed by the Company for services pursuant to the agreement in that calendar year, ..." The Company did not require its affiliates to provide the estimates as stipulated by the agreements. This examination determined that the Company did provide statements on a quarterly basis containing actual amounts owed to and from affiliates to be in compliance with the prior exam recommendation.

CORPORATE RECORDS

The prior examination report noted that the Company's Investment Guidelines were amended on March 19, 2003, but were not approved by the Company's Board of Directors. This was not in compliance with ALA. CODE § 27-41-5 (1975), which states that "An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer. . . ." The Company's Board approved these Investment Guidelines at the October 9, 2006 Board meeting complying with the prior examination report recommendation.

Dividends to Stockholders

The prior examination report reflected that the Company did not notify the Alabama Department of Insurance of a dividend to its stockholder in accordance with ALA. CODE § 27-29-5(g)(2) (1975), which states "A domestic insurer subject to registration under section 27-29-4 shall report to the commissioner all dividends to shareholders within five business days following the declaration of the dividends and not less than 10 days prior to the payment of the dividends." During this examination period, the Company reported three declared and paid dividends to the Alabama Department of Insurance in accordance with the aforementioned statute complying with the prior examination recommendation.

MARKET CONDUCT ACTIVITIES

Advertising and Marketing

The prior examination noted the website, <http://www.3dquotes.com>, which quotes the Company's products, did not correctly identify the Company's name on the website or on the on-line application, which was not in accordance with Alabama Insurance Department Regulation No. 69 Section IV(2). According to this regulation, "Every insurer shall establish and at all times maintain a system of control over the method of dissemination, content, and form of all advertisements of its policies. All such advertisements, regardless of by whom written, created, designed, or presented, shall be the responsibility of the insurer whose policies are so advertised." Also, Alabama Insurance Department Regulation No. 69 Section V (6)(c) states "The name of the insurer

shall be clearly identified on all of its advertisements. If any specific individual policy is advertised it shall be identified either by form number or other appropriate description. If an application is a part of the advertisement, the name of the insurer shall be known on the application.” After a review of the 3DQuotes.com website, the Company’s name was corrected from Protective Life and Annuity of New York to Protective Life and Annuity Insurance Company without exception. The Company also monitors the Company’s advertisements by conducting random reviews of websites regarding the advertisement of the Company’s products. The Company was in compliance with the prior examination recommendations.

Claims Processing

The prior examination determined that the Company was not maintaining all claims records at its home office as required by ALA. CODE §27-27-29(a)(1975), which states, “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs... .” Claims information, for claims that were being processed by Protective LA, Life of the South Services Company, and other third party administrators, was not maintained at the Company’s home office.

The Company’s 2006 Exhibit 8 - Part 2 reflected \$30,835,563 for the total claim settlements direct and assumed. The Company’s claims settled detail for direct and assumed life and paid A&H equaled \$30,344,905, which resulted in a \$490,658 immaterial difference. No explanations were provided for this variance. By not maintaining detail that reconciled, the Company was not in compliance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs... .”

During this examination, Life of the South was the only third party administrator that administered the Company’s claims, which were credit life and disability claims. For a sample of 100 claims (a combination of outstanding and paid), documentation supporting these claims was provided without exception. Claim documentation was maintained on the Company’s imaging system.

Claims Review

The Company only included in its 2003 Schedule F denied claims that had a resisted status as of December 31, 2003. The NAIC Annual Statement Instructions require that all claims with a resisted status as of year-end and all resisted or compromised claims that were disposed of during the current year be reported in Schedule F. During this examination, the Company included the claims in the required categories of resisted claims within its 2006 Schedule F in accordance with the NAIC Annual Statement Instructions.

REINSURANCE

In the prior examination, the Company combined all treaties of a particular reinsurance type into a single line in its 2003 Schedule S and used the earliest treaty date, which was not in accordance with the NAIC Annual Statement Instructions. These instructions require that each treaty be presented on a different line within Schedule S with the contract's original effective date.

After a review of the Company's reinsurance agreements effective during this examination period, the Company did, in most cases, change its prior practice of combining certain agreements into a single line by presenting individual agreements on a separate line. However, the Company did not report separately three of its agreements with Swiss Re Life & Health America Inc. effective on January 1, 2003, October 1, 2003, and January 1, 2005 by effective date within Schedule S in accordance with the NAIC Annual Statement Instructions. The Company combined these three agreements on one line with an effective date of January 1, 2005; therefore, the Company was not in compliance with the prior examination recommendation.

ACCOUNTS AND RECORDS

Lack of Appropriate Reconciliation of Detail

The prior examination noted that the Company's general ledger contained the detail of all transactions occurring within the general ledger accounts; however, the system was unable to produce, for certain inter-company and suspense accounts, the outstanding detail that reconciled back to the running balance that was the sum of the debits and credits recorded in the general ledger.

Company personnel, when requested by examiners, successfully reconciled (within immaterial amounts) all transactions contained in specific general ledger accounts back to the transactions outstanding at year-end; however, the Company should maintain, at least on a quarterly basis, a reconciliation of all general ledger accounts that ties back to the outstanding transactions recorded in its Quarterly and Annual Statements. ALA. CODE § 27-27-29(a) (1975) states, in part, that "Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

For this examination, the Company was able to provide the summaries of outstanding transactions; however, the outstanding transaction level detail was not readily available for all of the Company's inter-company and suspense accounts. The Company was not in compliance with the prior examination recommendation because it did not readily maintain the outstanding detail by transaction for all of its inter-company and suspense accounts that reconciled back to its general ledger accounts.

Records maintained outside of the State of Alabama

During the prior examination, the examiners obtained policy files and policy level detail of the reserves. The examiners noted that some of this information was not available from the Company's records maintained at its home office. The Company had to obtain the requested information from the Company's third party administrators and affiliates from remote locations in states outside of Alabama. ALA. CODE § 27-27-29(a)(1975) states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs... ."

This examination noted that the Company was not completely complying with the aforesaid statute. Documentation for certain policy level detail of reserves was not maintained at the Company's home office. See the next section- "Numerous Immaterial Errors" for further commentary. Policy files, which included claim documentation, were provided from the Company's imaging systems without exception. See "Claims Processing" on page 4 for further commentary.

Numerous Immaterial Errors

During the prior examination, the examiners requested the detailed transactions that comprised the Company's 2003 Annual Statement accounts. These examiners found immaterial discrepancies with regard to detail for the following accounts and areas:

- Gross life reserves by policy that reconciled to the Exhibit of Life Insurance;
- Aggregate reserve for A&H by policy including detail of the ceded reserve;
- Contract claims for life (direct and assumed credit business) and A&H (assumed group business);
- Remittances and items not allocated;
- Premiums received in advance;
- Receivable for securities;
- Commissions to agents due or accrued;
- Investment income due and accrued for mortgage loans;
- Other amounts receivable under reinsurance contracts;
- Uncollected premiums and agents' balances in course of collection line item; and,
- Liability for deposit-type contracts.

For this examination, the Company was able to provide support for all accounts noted above with the exception of Remittances and items not allocated and Gross life reserves by policy that reconciled to the Exhibit of Life Insurance. See "Lack of Appropriate Reconciliation of Detail" located at the beginning of this section "ACCOUNTS AND RECORDS" for further commentary on Remittances and items not allocated.

The detail of the Company's policies in-force at December 31, 2006, did not reconcile with the Company's 2006 Exhibit of Life Insurance. The number of policies in-force from the detail was 191,863. The number of policies in-force from the 2006 Exhibit of Life Insurance was 192,729, which resulted in a variance of 866. The amount of insurance in-force from the detail was \$9,466,717,346. The amount of insurance in-force from the 2006 Exhibit of Life Insurance was \$9,471,711,000, which resulted in a variance of \$4,993,654. The Company provided unsupported adjustments to the detail that reconciled the amount of insurance from the detail to the amount of insurance from the

Exhibit of Life Insurance within an immaterial variance of \$87,246. The unsupported adjustments were identified as unadjusted amounts due to system errors and blocks of business that were booked after year-end because the detail was received after the financial reporting date or was never received. There was also a \$2,111 immaterial difference between the detail (data sets) provided and the reserve amount per the Company's 2006 Exhibit 5. Because the Company did not provide complete policy level detail to support its 2006 Exhibit of Life Insurance, it was not in compliance with ALA. CODE § 27-27-29(a)(1975), which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs... ."

Lack of Responsiveness to the Examiners Information Requests

The prior examination noted that there were certain instances in which the Company officials and personnel did not respond to the examiners' information requests within ten business days as required by Alabama Insurance Department Regulation No. 118 Section 6. According to this statute, "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay." During this examination, the examiners noted that the Company was much more responsive in providing requested information in a timely manner; however, the Company was not in complete compliance with the aforementioned regulation.

FINANCIAL STATEMENTS

Because this is a limited-scope examination, the Company's financial condition was not reviewed. Items that had recommendations in the prior examination report as of December 31, 2006 were reviewed to **determine compliance with the prior examination report recommendations.** All financial statement amounts were obtained from Company copies of its 2004, 2005, and 2006 Annual Statements, except that the examiners made a change to Aggregate reserve for life contracts due to noncompliance with previous examination recommendation.

Financial statements included in this report, which reflect the operations of the Company for the years under this limited-scope examination, consist of the following:

Statement of Assets, Liabilities, Surplus and Other Funds	Pages 10 and 11
Summary of Operations	Page 12
Capital and Surplus Account	Page 13

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Protective Life and Annuity Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2006

Assets

	Asset	Non- Admitted Asset	Admitted Asset
Bonds (Note 1)	\$ 444,626,189		\$ 444,626,189
Preferred stocks	17,132,062		17,132,062
Mortgage loans on real estate	710,465		710,465
Cash and short-term investments (Note 2)	7,638,045		7,638,045
Contract loans	50,733,848	8,045	50,725,803
Receivable for securities	115,251		115,251
Investment income due and accrued	8,236,902		8,236,902
Uncollected premiums and agents' balances in course of collection (Note 3)	-2,952,220	7,328	-2,959,548
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,431,704		1,431,704
Amounts recoverable from reinsurers	1,218,412	5,015	1,213,397
Other amounts receivable under reinsurance contracts (Note 4)	166,968		166,968
Current federal and foreign income tax recoverable and interest thereon	2,375,442		2,375,442
Net deferred tax asset	1,410,485	189,537	1,220,948
Guaranty funds receivable or on deposit	5,851		5,851
Healthcare and other amounts receivable	67,838	67,838	0
Aggregate write-ins for other than invested assets	223,856		223,856
From Separate Accounts, Segregated Accounts and Protected Cell Accounts (Note 5)	46,911,421		46,911,421
Total Assets	\$ 580,052,520	\$ 277,763	\$ 579,774,757

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Protective Life and Annuity Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2006

Liabilities, Surplus and Other Funds

Liabilities:

Aggregate reserve for life contracts (Note 6)	\$ 448,427,917
Aggregate reserve for accident and health contracts (Note 7)	6,611,577
Liability for deposit-type contracts	6,400,066
Contract claims – Life	1,075,172
Contract claims – Accident and health	137,383
Policyholders' dividends	1,074
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts, Dividends apportioned for payment	98,855
Premiums and annuity considerations for life and accident and health contracts received in advance less discount; including accident and health premiums	69,315
Provisions for experience rating refunds	195,693
Other amounts payable on reinsurance (Note 8)	732,199
Interest maintenance reserve	3,549,018
Commissions to agents due or accrued (Note 9)	155,562
Commissions and expense allowances payable on reinsurance assumed	2,335
General expenses due or accrued	3,406
Transfers to Separate Accounts due or accrued	6,610,801
Taxes, licenses and fees due or accrued, excluding federal income taxes	41,045
Unearned investment income	1,642,681
Amounts withheld or retained by company as agent or trustee	82,519
Remittances and items not allocated (Note 2)	1,446,852
Asset valuation reserve	3,545,215
Reinsurance in unauthorized companies	239
Funds held under reinsurance treaties with unauthorized reinsurers	238,749
Payable to parent, subsidiaries and affiliates	6,536,283
Funds held under coinsurance	4,927,717
From Separate Accounts Statement (Note 5)	46,911,421
Total Liabilities	\$ 539,443,093

Capital and Surplus:

Common capital stock	\$ 2,500,000
Preferred capital stock	2,000
Aggregate write-ins for other than special surplus funds	5,804
Gross paid in and contributed surplus	176,725,865
Unassigned funds (Note 9)	-138,902,005
Total Capital and Surplus	\$ 40,331,664
Total Liabilities and Stockholders' Equity	\$ 579,774,757

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Protective Life and Annuity Insurance Company
Summary of Operations
For the Years Ended December 31, 2004, 2005, and 2006

	2004	2005	2006
Income:			
Premiums and annuity considerations for life and accident and health policies and contracts	\$30,885,875	\$26,941,540	\$25,840,516
Considerations for supplementary contracts with life contingencies	95,061		
Net investment income	36,606,604	37,038,905	33,303,919
Amortization of Interest Maintenance Reserve (IMR)	442,285	459,965	392,542
Separate Accounts net gain from operations excluding unrealized gains or losses	1,563,990	-160,842	-384,433
Commissions and expense allowances on reinsurance ceded	2,889,114	2,665,185	2,412,194
Income from fees associated with investment management, administration and contract guarantees for Separate Accounts	147,968	144,514	121,192
Aggregate write-ins for miscellaneous income	49,821	38,551	23,851
Total Income	\$72,680,718	\$67,127,819	\$61,709,782
Deductions:			
Death benefits	\$9,133,500	\$10,095,366	\$8,312,610
Matured endowments (excluding guaranteed annual pure endowments)	9,897	29,023	17,290
Annuity benefits	67,844	102,968	158,469
Disability benefits and benefits under accident and health policies	1,852,615	1,619,690	1,511,600
Coupons, guaranteed annual pure endowments and similar benefits	10,203	9,445	9,124
Surrender benefits and withdrawals for life contracts	26,207,507	29,933,619	32,829,198
Interest and adjustments on policy or deposit-type contract funds	75,419	186,051	389,736
Payments on supplementary contracts with life contingencies	4,691	1,598	1,598
Increase in aggregate reserves for life and accident and health policies and contracts	2,135,552	-2,855,919	2,298,411
TOTALS	\$39,497,228	\$39,121,842	\$45,528,036
Commissions on premiums, annuity considerations and deposit-type contract funds (direct business only)	\$ 4,730,351	\$ 4,222,793	\$ 2,905,872
Commissions and expense allowances on reinsurance assumed	-153,134	398,398	484,999
General insurance expenses	8,650,332	7,108,876	7,056,067
Insurance taxes, licenses and fees, excluding federal income taxes	1,460,066	1,450,940	1,006,111
Increase in loading on deferred and uncollected premiums	130,615	-38,019	-9,595
Net transfers to or (from) Separate Accounts	-2,607,099	-6,939,362	-12,879,900
Aggregate write-ins for deductions	1,286,333	246,999	340,337
TOTALS	\$52,994,692	\$45,572,467	\$44,431,927
Net gain from operations before dividends to policyholders and federal income taxes	\$19,686,026	\$21,555,352	\$17,277,855
Dividends to policyholders	107,271	98,677	97,917
Net gain from operations after dividends to policyholders and before federal income taxes and before realized capital gains or (losses)	\$19,578,755	\$21,456,675	\$17,179,938
Federal and foreign income taxes incurred (excluding tax on capital gains)	6,047,111	4,796,263	7,113,270
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	\$13,531,644	\$16,660,412	\$10,066,668
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	1,136,862	-253,558	16,730
Net income	\$14,668,506	\$16,406,854	\$10,083,398

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Protective Life and Annuity Insurance Company
Capital and Surplus
For the Years Ended December 31, 2004, 2005, and 2006

	2004	2005	2006
Capital and surplus, December 31, prior year	\$108,738,317	\$105,382,772	\$107,369,353
Net income	14,668,506	16,406,854	10,083,398
Change in net unrealized capital gains (losses)	14,998	2	
Change in net deferred income tax	-1,131,611	-2,614,869	311,266
Change in nonadmitted assets and related items	206,655	1,978,849	-39,186
Change in liability for reinsurance in unauthorized companies	543		-239
Change in reserve on account of change in valuation basis, (increase) or decrease	-1,303,720		
Change in asset valuation reserve	1,189,084	865,745	1,107,074
Surplus withdrawn from Separate Accounts during period	1,563,989	-160,842	-384,433
Other changes in surplus in Separate Accounts Statement	-1,563,989	160,842	384,433
Cumulative effect of changes in accounting principles			
Paid in surplus			
Dividends to stockholders	<u>-17,000,000</u>	<u>-14,650,000</u>	<u>-78,500,000</u>
Net change in capital and surplus for the year	<u>-3,355,545</u>	<u>1,986,581</u>	<u>-67,037,687</u>
Rounding			<u>-2</u>
Capital and surplus, December 31, current year.	<u>\$105,382,772</u>	<u>\$107,369,353</u>	<u>\$40,331,664</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$444,626,189

The captioned amount is the same as reported by the Company in its 2006 Annual Statement.

The prior examination noted that the Company was reviewing prepayment assumptions for mortgage-backed securities on an annual basis instead of on a quarterly basis, which was not in accordance with SSAP No. 43, paragraph 10, which states "For securities that have the potential for loss of a portion of the original investment due to changes in interest rates or prepayments, the review shall be performed at least quarterly." This examination noted that the Company was reviewing prepayment assumptions on a quarterly basis in accordance with SSAP No. 43, paragraph 10.

The two prior examination reports indicated that the actual acquisition cost and subsequent amortization of a November 18, 1998 securities acquisition was not accurately reported in the Company's financial statements. Adjustments were made to the acquisition cost and subsequent amortization of these securities to correct this error. The Company no longer owned these securities at December 31, 2006.

Note 2 - Cash and short-term investments

\$7,638,045

Remittances and items not allocated

\$1,446,852

The captioned amounts are the same as reported by the Company in its 2006 Annual Statement.

In the prior examination, the Company had twelve bank accounts classified in the Remittances and items not allocated line item at December 31, 2003. These accounts were incorrectly classified and should have been classified in the Company's Cash account in accordance with the NAIC Annual Statement Instructions. During this examination period, the Company reclassified these bank accounts as cash, therefore complying with the prior examination recommendation.

The prior two examinations noted that the Company did not promptly update its authorizations for financial institution accounts when authorized signers retired, resigned, or were terminated. This examination noted that one employee, who resigned effective October 31, 2006 and was an authorized

signer on two of the Company's bank accounts, was not removed as an authorized signer as of December 31, 2006. According to a Company official, the Company is in the process of removing this individual as an authorized signer.

Note 3 - Uncollected premiums and agents' balance in course of collection **-\$2,959,548**

The captioned amount is the same as reported by the Company in its 2006 Annual Statement.

The prior examination noted that the Company did not classify all of its ceded reinsurance premiums payable in this account. This examination found that the Company reduced this asset by all of its ceded reinsurance premiums payable at December 31, 2006.

Note 4 - Other amounts receivable under reinsurance contracts **\$166,968**

The captioned amount is the same as reported by the Company in its 2006 Annual Statement.

The prior examination noted that the Company included a receivable for premium taxes that were paid by the Company on behalf of XL Life via a reinsurance agreement that was over a year old and had still not been recovered at the date of the prior examination report. This amount should have been nonadmitted. The December 31, 2006 detail was obtained, and it indicated that the Company was in compliance with the prior examination report recommendation.

Note 5 - From Separate Accounts, Segregated Accounts and Protected Cell Accounts **\$46,911,421**
From Separate Accounts Statement **\$46,911,421**

The captioned amounts are the same as reported by the Company in its 2005 Annual Statement.

The prior examination noted that the Company did not comply with the requirement of Appendix A-255, paragraph 5 of the NAIC Accounting Practices and Procedures Manual, which requires that "as a minimum, the separate account liability will equal the surrender value based upon the market-value adjustment formula contained in the contract." The Company

misclassified this required liability as a negative Aggregate write-in for other than invested assets. This examination found that the Company correctly classified this liability at December 31, 2006.

The prior examination also noted that the Company did not complete the Rate Used to Obtain Fair Value column for nine securities in its 2003 Separate Accounts- Schedule D- Part 1, which was not in accordance with the NAIC Annual Statement Instructions. This examination found that the Company rectified this omission.

Note 6 - Aggregate reserve for life contracts

\$448,427,917

The captioned amount is \$2,761,656 more than the \$445,666,261 reported by the Company in its 2006 Annual Statement.

The prior examination report recommended that the Company execute all reinsurance contracts before the "as of" date of the financial statement before it takes credit related to the reinsurance contract in accordance with Alabama Department of Insurance Regulation No. 85 Section 5. This examination noted that the Company did not comply with this recommendation. After a review of the reinsurance agreements effective in 2004 through 2006, it was noted that the Security of Denver contract effective February 9, 2004 was signed by the Company on April 16, 2007. Since this agreement was signed in 2007 and not before year-end 2005 or 2006, the Company was not allowed to take the reinsurance credits of \$2,844,099 in 2005 and \$2,761,654 in 2006 according to ALA. ADMIN. CODE 482-1-085-.05 (2005). This regulation states:

"(1) No reinsurance agreement or amendment to any agreement may be used to reduce any liability or to establish any asset in any financial statement filed with this Department, unless the agreement, amendment or a binding letter of intent has been duly executed by both parties no later than the "as of date" of the financial statement.

(2) In the case of a letter of intent, a reinsurance agreement or an amendment to a reinsurance agreement must be executed within a reasonable period of time, not exceeding ninety (90) days from the execution date of the letter of intent, in order for credit to be granted for the reinsurance ceded."

Also, the Company did not have a signed agreement nor a signed letter of intent with Swiss Re Life & Health America even though it was listed as effective on January 1, 2006 in the Company's 2006 Schedule S- Part 3- Section 1 with a \$2 reserve credit. The Company was again not in compliance with ALA. ADMIN. CODE 482-1-085-.05 (see citation above).

Note 7- Aggregate reserve for accident and health contracts \$6,611,577

The captioned amount is the same as reported by the Company in its 2006 Annual Statement.

The prior examination noted that the Company's accident and health reserves were based on the pro rata, the rule of 78, and the mean of pro rata and rule of 78 approaches. The Company was not complying with Alabama statute requirements in their calculations of credit accident and health unearned premium reserves. The Company did not floor its reserves at pro-rata reserves. ALA. CODE § 27-36-5 (1975) requires that credit accident and health unearned premium reserves be set at a level that equals or exceeds a reserve calculated by the pro rata method.

A recalculation was done to determine if the Company's reserve methodology complied with aforementioned statute. This examination determined that the Company was in compliance with ALA. CODE § 27-36-5 (1975).

Note 8 - Commissions to agents due or accrued \$155,562

The captioned amount is the same as reported by the Company in its 2006 Annual Statement.

The prior examination noted that the Company misclassified its renewal commissions due to agents in the Amounts held for agents' account liability. This examination determined that the Company correctly classified these commissions in Commissions to agents due or accrued at December 31, 2006.

Note 9 - Unassigned Funds -\$138,902,005

The captioned amount is \$2,781,656 less than the -\$136,140,349 reported by the Company in its 2006 Annual Statement.

The entire reduction resulted from an increase to Aggregate reserve for life contracts.

COMMENTS AND RECOMMENDATIONS

Claims Processing - Page 4

It is recommended that the Company maintain all detail that reconciles back to its future financial statements in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs... .”

REINSURANCE - Page 5

It is again recommended that the Company identify and include each treaty by its original effective date in Schedule S in accordance with the NAIC Annual Statement Instructions.

ACCOUNTS AND RECORDS - Page 5

It is again recommended that the Company maintain, at least on a quarterly basis, the outstanding detail that reconciles to the general ledger accounts, which reconcile to the Quarterly and Annual Statements in accordance with ALA. CODE Section 27-27-29 (a) (1975), which requires the Company to keep “complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary and suitable as to the kind, or kinds, of insurance transacted.”

It is again recommended that the Company maintain sufficient detail to substantiate all Annual Statement amounts in accordance with ALA. CODE § 27-27-29(a) (1975).

The Company made significant progress in providing requested information in a timely manner. In certain instances, the Company did not provide all information timely; therefore, **it is again recommended** that the Company respond to the examiners' information requests within ten business days in accordance with Alabama Insurance Department Regulation No. 118 Section 6, which states “The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule,

unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.”

Cash - Page 14

It is again recommended that the Company promptly update its authorizations for financial institution accounts when authorized signers retire, resign, or are terminated.

Aggregate reserve for life contracts - Page 16

It is again recommended that the Company obtain a binding letter of intent before the “as of” date of the financial statement before it takes credit related to the reinsurance contract in accordance with ALA. ADMIN. CODE 482-1-085-.05 (2005), which states:

“(1) No reinsurance agreement or amendment to any agreement may be used to reduce any liability or to establish any asset in any financial statement filed with this Department, unless the agreement, amendment or a binding letter of intent has been duly executed by both parties no later than the “as of date” of the financial statement.

(2). In the case of a letter of intent, a reinsurance agreement or an amendment to a reinsurance agreement must be executed within a reasonable period of time, not exceeding ninety (90) days from the execution date of the letter of intent, in order for credit to be granted for the reinsurance ceded.”

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by all persons representing the Company during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with this limited scope examination, which expresses no opinion on the financial condition of the Company.

In addition to the undersigned, Harland A. Dyer, FSA, MAAA, Consulting Actuary; representing the Alabama Department of Insurance, participated in this examination of Protective Life and Annuity Insurance Company.

Respectfully submitted,



Rhonda B. Ball

Examiner-in-charge

Alabama Department of Insurance